GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2217
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PSBS AND PRIVATE SECTOR BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether Public Sector Banks (PSBs) are lagging behind the private sector banks;

(b) if so, the reasons therefor;

(c) the steps being ia;ken by the Government to boost the working ofPSBs so as to enable them to complete with such banks efficiently?

Answer

MINISTER OF STATE IN TIIE MINISTRY OF FINANCE(SHRI PAWAN KUMAR BANSAL)

(a) & (b) : Public sector banks (PSBs) account fot the. majority of market share (around 70%) of the entire banking system as at end March 2007 and March 2008. In terms of capital adequacy, both PSBs as well as private sector ban~ are well above the regulatory requirement of ~A. of Capital to Risk Weighted Asset Ratio (CRAR). As regards the performance indicators measured by return on assets (ROA) and return on equity (ROE), ROA of PSBs stood lower than private sector banks probably because the PSBs discharge various social and national obligations, and also operate unviable branches in remote and unbanked areas of the countly. As on March 2007 and 2008, ROE of PSBs stood higher than that of private sector banks. The details ofPSBs and private sector banks on key perfonnance parameters are indicated below:Â

(Amount Rs. in crore)

	March-2007		March-2008	
ITEMS	Public sector	Private sector	Public Sector	Private sector
Deposits	19,11,993	5,43.361	23,56,776	6,66,637
	(23.26)		(22.69)	
Advances	13,73,777	4,20,145	16,96,929	4,72,345
	(23.5)		(12.42)	
Net Profit	20,152	6,465	25,622	8,649
	(33.6)		(33.78)	
Market share(%)	70.34	21.23	69.96	21.19

CRAR(%) 12.36 12.01 12.51 14.34

ROA(%) 0.82 0.81 0.89 0.99

ROE(%) 13.62 11.59 13.72 9.56

(Figures in brackets indicate growth percentage for the year 2007-08)

(C) To improve the health of the banking sector in India in general, and.that of Public Sector Banks (PSBs), in particular,and also to bring it at par with international standards, the Reserve Bank of India has prescribed measures for strengthening of risk based prudential supervision, introduction of capital adequacy standards on the lines of the Basel Committee norms, etc. coupled with wide ranging steps undertaken by the Government.After initiation of reforms in early 1990s, financial performance of the banking sector has improved significantly.Balance sheet and profitability indicators viz. Return on Assets, Net Interest Margin, Non-Performing Assets (NPA) Ratios,Provisioning and Classification norms for NPAs,Capital Adequacy Ratio etc. suggest that the Indian banking sector now compares well with global benchmarks.Further,to facilitate quick and efficient decision-making and to provide sufficient managerial autonomy to the Boards of public sector banks to be able to compete internationally,Government announced an Autonomy Package in February,2005 for these banks.As per this package,the Bank Boards are competent to decide on the issues relating to entering new lines of business as part of overall business strategy,make suitable acquisition of companies or businesses,close/merge unviable branches,open overseas offices,set up subsidiaries and exit a line of business, etc. The Government has also put in place a mechanism to monitor the overall performance of p,SBs on the basis of the `Statement of Intent on Annual Goals (SOI)`- submitted by them on various performance parameters including deposits, advances, non-performing assets (NPAs).cost to income ratio, return on assets (ROA), profit, etc. These steps taken by the Government/RBI have also contributed towards overall increase in profits ofPSBs during the years 2006-07 and 2007-08.